

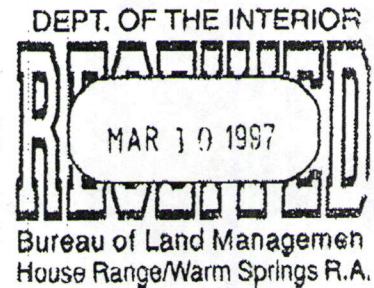
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March 7, 1997



VIA CERTIFIED MAIL/
FEDERAL EXPRESS

Mr. Rex Rowley
Area Manager, House Range Resource Area
United States Department of the Interior, Bureau of Land Management
15 East 500 North
P.O. Box 778
Fillmore, Utah 84631

0013-0013

Re: BLM letter to Western States Minerals Corporation concerning the Drum Mine,
Utah

Dear Mr. Rowley:

1 This letter is a response to your January 17, 1997 letter to Western States Minerals Corporation ("WSMC"), which was received January 24, 1997. Your January 17 letter (the "BLM letter") raises a number of issues, which I will address on behalf of WSMC.

2 Paragraph 1 of the BLM letter recounts the sequence of events whereby Jumbo Mining Company became the owner of the Drum Mine and subject to the BLM-approved Plan of Operations and BLM-approved amendments thereto (together, the "POO") for that property. WSMC sold the Drum property to Jumbo Mining Company in December 1988. Jumbo informed the BLM that it was the new owner and, as you acknowledged in Paragraph 1 of the BLM letter, BLM considered Jumbo to be the new operator of the property. ("...[BLM has] since that time considered Jumbo to have assumed responsibility for the operations and liabilities of the POO"). However, paragraph 1 also asserts that BLM considers WSMC to be responsible for the reclamation of portions of the Drum property that are outside of the POO. There is no basis for BLM's assertion of WSMC responsibility.

3 Jumbo became the owner of the property in December 1988. As BLM acknowledges in its letter, and according to the regulatory definition of the term, Jumbo also became the

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3 "operator" of the Drum property. An "operator" is "a person conducting or proposing to conduct operations," 43 CFR 3809.0-5(g) (October 1996), while "operations" are "all functions, work, facilities, and activities in connection with prospecting, discovery and assessment work, development, extraction, and processing of mineral deposits locatable under the mining laws and all other uses reasonably incident thereto...." 43 CFR 3809.0-5(i) (October 1996).

4 Jumbo has been the "person proposing or conducting operations" at the Drum project since it acquired ownership in 1988. WSMC sold the property to Jumbo and has had no physical possession, property right or economic involvement with the property since the sale. Therefore, Jumbo, and not WSMC, is the operator, as well as the owner, of the Drum Mine and the surrounding property, and as such is responsible for all compliance and reclamation work at the property.

5 Jumbo is not only responsible as a matter of regulatory construction; at the time of the sale of the Drum Mine, as one of the terms of its purchase agreement, Jumbo agreed to assume all reclamation responsibility for the property. Therefore, as a matter of both regulatory and contract law, Jumbo, not WSMC, is the "operator" of Drum and responsible for all reclamation work. Finally, WSMC, having sold the property to Jumbo, has no legal right of access to the property, and cannot be held obligated to perform a task that it has no legal right to perform.

6 Paragraph 2 of the BLM letter refers to "several disturbances within the Drum Mine project that were never part of the approved POO and associated amendments....," and states that BLM holds WSMC responsible for costs of reclamation and restoration. WSMC and the Utah Department of Health ("UDH") resolved the issues surrounding those disturbances in September 1988. WSMC agreed to comply with the terms of an order issued by UDH on September 28, 1988, and UDH was satisfied with that agreement. Subsequently, Jumbo assumed ownership and with it, reclamation responsibility for the Drum Mine. WSMC believes that BLM and DOGM should require Jumbo, as the owner and operator of the property to reclaim these disturbances, if reclamation is required.

7 In paragraph 3, your letter states that BLM personnel were told that WSMC had created a number of disturbances at the Busby Spring area. WSMC developed the Busby Spring area to hold water for use in mining operations. As to the holding pond and pipe structure, WSMC believes that Jumbo has been using those facilities since purchasing the property in 1988, as is their right, subject to their obligation to comply with state and federal reclamation laws and regulations.

4 Paragraph 4 of your letter indicates that BLM considers WSMC to be responsible for reclamation of possible disturbance of a site which has not been inspected to see whether the site has been disturbed or reclaimed under Notices of Intent. If the site in question has actually been

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8 disturbed, and if reclamation of the site is needed, WSMC again suggests that the owner, Jumbo, is the party responsible, because it is the operator of the site and because it succeeded to all of WSMC's rights and obligations, including the obligation to reclaim, when it bought the property.

9 Paragraph 5 of the BLM letter states that BLM will require WSMC to reclaim the Mizpah claims if Jumbo does not submit a reclamation bond in accord with the Plan of Operations it has submitted to the BLM. Jumbo is unequivocally the "person conducting or proposing to conduct operations" here; the proponent of a plan of operations is by definition an operator. WSMC respectfully suggests that the correct action for BLM to take if Jumbo fails to submit an adequate bond is to cite Jumbo for noncompliance with its Plan of Operations. WSMC has not had any responsibility for the Mizpah claims since Jumbo acquired them in 1988; Jumbo is the party responsible for reclamation of all the Drum area claims.

10 The BLM letter also alleges that WSMC has violated specific BLM regulations, particularly 43 CFR 3809.3-2; 3809.1-9(b); 3809.2-2(b), and 3809.3-7. The first alleged violation, failure to file a Plan of Operations, was resolved by WSMC's and UDH's agreement in September 1988, prior to Jumbo's purchase of the Drum Mine property in that year.

11 The second alleged violation, failure to post reclamation bond after approval of a plan of operations, is plainly false. WSMC posted a bond with Utah DOGM, and in fact DOGM continues to hold WSMC's bond, even though WSMC has not owned the Drum property, nor conducted any activity there, since 1988. WSMC has been trying to get its bond back from DOGM for nearly a decade, and has tried to convince DOGM to exercise its authority to require full bonding from Jumbo. The party that has failed to meet its obligations to post reclamation bond is the owner and operator of the site, Jumbo. Rather than acknowledging and performing its duties to bond and provide for reclamation of the full site, Jumbo has sought to select its bonding and reclamation obligations, and has repeatedly delayed performance. DOGM has abetted this behavior by failing to insist that Jumbo post full bond, and even BLM has aided Jumbo's efforts to avoid its responsibility, by apparently allowing Jumbo to select which reclamation obligations it will meet and which it will try to foist off on WSMC.

12 BLM's third allegation, that WSMC has failed to comply with applicable water quality standards, is also unfounded. WSMC is neither the owner nor the operator of the Drum mine, nor is it the holder of a discharge permit issued under Utah's water quality laws, and therefore it has no control over the site or over the site's compliance with, or failure to comply with, water quality standards.

13 Finally, BLM's fourth allegation is incorrect in at least two ways. First, and as mentioned before, WSMC has no right or obligation to reclaim the Drum Mine because it does not own it or control it in any way, and has not since 1988. Second, the BLM regulation quoted does not

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13 obligate operators to "obtain permission to not reclaim during extended periods of non-operation." The cited regulation says that operators may be required to reclaim a site after an extended period of non-operation, unless they obtain permission from the authorized officer to do otherwise. WSMC suggests that BLM require Jumbo, the owner and operator of the Drum Mine and surrounding property, to reclaim the site according to BLM standards.

14 BLM's letter fails to acknowledge an essential fact: Jumbo is the owner, operator, and person responsible for the reclamation of, the Drum mine. It acquired all of those rights and responsibilities when it purchased the property in 1988. Jumbo has sought to convince DOGM and the BLM (apparently with some success) that it is only responsible for the reclamation of portions of the property. However, Jumbo agreed to assume the entire reclamation responsibility in its purchase contract, and therefore cannot claim that WSMC is responsible for some of it. Further, Jumbo, as owner and operator, is the entity responsible for reclamation under BLM and DOGM regulations.

15 To date, neither BLM nor DOGM has shown any willingness to do what their regulations require. Those regulations require that the operator provide an operating plan, a reclamation plan, and adequate financial assurance. Jumbo, not WSMC, is the operator at Drum. Despite its attempts to convince DOGM and BLM that WSMC is responsible for some of the reclamation at Drum, the facts are that Jumbo has the obligation to reclaim as an operator, Jumbo agreed to assume any and all of WSMC's reclamation obligations, and that agreement has been adjudicated in Colorado to mean that Jumbo is the entity obligated to reclaim. That judgment, which has been affirmed on appeal and is not stayed, has been domesticated in Utah. BLM has a mechanism to ensure that Jumbo meets its obligations: it can require Jumbo to amend its Plan of Operations to include reclamation of all disturbances on the property, and require Jumbo to post adequate surety for the Plan. This would place the responsibility where the obligation lies: on Jumbo, the operator, who agreed to undertake all reclamation on the Drum property and who is responsible according to BLM regulations. For BLM to continue to pursue WSMC is unfair and is unauthorized by BLM rules.


16 WSMC has met its reclamation obligations at Drum. The company posted financial assurance in accordance with state and federal requirements, and modified its practices in accordance with UDH's order of September 1988. WSMC arranged an orderly transfer of reclamation responsibility to Jumbo, which was approved by the state and by BLM. Where WSMC has been apprised of unmet reclamation obligations on land outside of the Drum property, it has stepped up to its responsibilities.

17 WSMC does not accept BLM's assertion that it has reclamation responsibility at the Drum Mine. It does not own, control, or have access to the mine. It is clear that Jumbo is obliged to perform reclamation there, and WSMC will not relieve it of its obligation. While

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17 WSMC is willing to continue discussing how it may play a consulting the
issues at the Drum Mine, it will not submit a Plan of Operations for the mine as
requested by BLM.

Very truly yours,


Christopher G. Hayes,

cc: Mr. John Carmody
Mr. Al Cerny

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